

October 11, 2022

Brian Zolynas  
Division of Medicaid and Children's Health Operations  
U.S. Department of Health & Human Services  
Centers for Medicare & Medicaid Services  
90 Seventh Street, Suite 5-300 (5W)  
San Francisco, CA 94103-6707

**RE: Arizona SPA #22-0024, DRG Rates**

Dear Mr. Zolynas:

Enclosed is State Plan Amendment (SPA) #22-0024, DRG Rates. This SPA updates the state plan DRG rates, with an effective date of October 1, 2022.

Tribal Consultation and Public Notice Requirements for this SPA have been fulfilled and the corresponding documentation is provided below:

Tribal Consultation (August 11, 2022):

<https://www.azahcccs.gov/AmericanIndians/Downloads/Consultations/Meetings/2022/August112022QuarterlyTC.pdf>

Public Notice:

[https://www.azahcccs.gov/AHCCCS/Downloads/PublicNotices/rates/Final\\_Public\\_Notice\\_Rate\\_Changes\\_20221001.pdf](https://www.azahcccs.gov/AHCCCS/Downloads/PublicNotices/rates/Final_Public_Notice_Rate_Changes_20221001.pdf)

The Fiscal Impact of this SPA has been calculated as:

- FFY 2023: \$3,762,529
- FFY 2024: \$0

The state has projected the federal fiscal impact for FFY 2023 and FFY 2024 using the actual expenditure data from FFY 2021 and incorporating rate changes that occurred in FFY 2022. Using the estimated FFY 2022 expenditures, the state applied the rate changes for FFY 2023 to estimate the fiscal impact for FFY 2024. The FMAP used in FFY 2023 75.76%. The FFY 2024 estimate was assumed to be the same as FFY 2023; however, the FMAP for FFY 2024 was 66.92%.

If there are any questions about the enclosed SPA, please contact Ruben Soliz at [ruben.soliz@azahcccs.gov](mailto:ruben.soliz@azahcccs.gov) or 602-417-4355.

Sincerely,



Dana Flannery  
Assistant Director  
Arizona Health Care Cost Containment System (AHCCCS)

**TRANSMITTAL AND NOTICE OF APPROVAL OF  
STATE PLAN MATERIAL  
FOR: CENTERS FOR MEDICARE & MEDICAID SERVICES**

1. TRANSMITTAL NUMBER <b>22 - 0024</b>	2. STATE <b>AZ</b>
3. PROGRAM IDENTIFICATION: TITLE <b>XIX</b> OF THE SOCIAL SECURITY ACT	
4. PROPOSED EFFECTIVE DATE <b>October 1, 2022</b>	
5. FEDERAL STATUTE/REGULATION CITATION 42 CFR Part 447, Subpart C	6. FEDERAL BUDGET IMPACT (Amounts in WHOLE dollars) a. FFY <u>23</u> \$ <u>3,762,529</u> b. FFY: <u>24</u> \$ <u>0</u>
7. PAGE NUMBER OF THE PLAN SECTION OR ATTACHMENT  Attachment 4.19-A page 19, 20 and 21	8. PAGE NUMBER OF THE SUPERSEDED PLAN SECTION OR ATTACHMENT (If Applicable)  Attachment 4.19-A page 19, 20 and 21

TO: CENTER DIRECTOR  
CENTERS FOR MEDICAID & CHIP SERVICES  
DEPARTMENT OF HEALTH AND HUMAN SERVICES

9. SUBJECT OF AMENDMENT  
Updates the state plan DRG rates, effective October 1, 2022.

10. GOVERNOR'S REVIEW (Check One)

- GOVERNOR'S OFFICE REPORTED NO COMMENT       OTHER, AS  
 SPECIFIED: COMMENTS OF GOVERNOR'S OFFICE ENCLOSED  
 NO REPLY RECEIVED WITHIN 45 DAYS OF SUBMITTAL

11. SIGNATURE OF STATE AGENCY OFFICIAL



12. TYPED NAME  
Dana Flannery

13. TITLE  
Assistant Director

14. DATE SUBMITTED: October 11, 2022

15. RETURN TO  
Dana Flannery  
801 E. Jefferson St., MD # 4200  
Phoenix, AZ 85034

**FOR CMS USE ONLY**

16. DATE RECEIVED	17. DATE APPROVED
<b>PLAN APPROVED - ONE COPY ATTACHED</b>	
18. EFFECTIVE DATE OF APPROVED MATERIAL	19. SIGNATURE OF APPROVING OFFICIAL
20. TYPED NAME OF APPROVING OFFICIAL	21. TITLE OF APPROVING OFFICIAL

22. REMARKS

STATE OF ARIZONA  
METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES  
INPATIENT HOSPITAL CARE

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C. DRG Relative Weights

The APR-DRG methodology classifies inpatient stays into categories based on similar clinical conditions and similar levels of hospital resources required for treatment. The categories are identified using diagnosis-related group codes, each of which is assigned a relative weight appropriate to the relative amount of hospital resources expected to be used to treat the patient. Each claim is assigned to a DRG based on the patient's diagnoses, surgical procedures performed, age, gender, birth weight, and discharge status. An APR-DRG payment is determined by multiplying the DRG base rate by the DRG relative weight and any applicable policy adjustors. The DRG relative weights are posted on the AHCCCS website as of October 1, 2022<sup>+</sup> at <https://www.azahcccs.gov/PlansProviders/RatesAndBilling/FFS/APRDRGrates.html>.

D. DRG Base Rate for Arizona Hospitals

The DRG base rate for each hospital other than those described in paragraphs 1 and 2 below is a statewide standardized amount adjusted by applying the hospital's wage index to the hospital's labor-related share. The hospital wage index and labor-related share are those published by Medicare on September 18, 2020 for the Medicare inpatient prospective payment system for the fiscal year October 1, 2020 through September 30, 2021, and will not be subject to annual updates. For the following described hospitals, the DRG base rate will be calculated in the same manner except that an alternative standardized amount will be used in place of the statewide standardized amount:

1. Hospitals that are licensed by the state of Arizona Department of Health Services as short-term hospitals, indicated by a license number beginning with the letters "SH." These hospitals typically practice in a limited, specialized field.
2. Hospitals that are located in a city with a population greater than one million, which on average have at least 15% of inpatient days for patients who reside outside of Arizona and at least 50% of discharges reimbursed by Medicare as reported on the hospital's Medicare Cost Report for the hospital's cost reporting period ending between January 1, 2011 and December 31, 2011.

The statewide standardized amount, the alternative standardized amount, and the DRG base rates for all hospitals are posted on the AHCCCS website as of October 1, 2022<sup>+</sup> at <https://www.azahcccs.gov/PlansProviders/RatesAndBilling/FFS/APRDRGrates.html>.

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E. DRG Base Rate for Out-of-State Hospitals

The DRG base rate for high volume out-of-state hospitals will be calculated in the same manner as for Arizona hospitals, using the Arizona statewide standardized amount. A high volume out-of-state hospital is a hospital that is located in a county that borders the state of Arizona and had 500 or more AHCCCS-covered inpatient days for the fiscal year beginning October 1, 2015. The DRG base rate for all other out-of-state hospitals is posted on the AHCCCS website that is referenced in paragraph D.

F. Policy Adjustors

Where AHCCCS has determined that an adjustment to the base payment is appropriate to ensure access to quality care, a policy adjustor will be applied to the base payment. Firstly, AHCCCS will apply a provider policy adjustor of 1.110 times the base rate to all claims from hospitals that are high volume Medicaid providers. A high volume Medicaid provider is a hospital that had AHCCCS-covered inpatient days during the fiscal year beginning October 1, 2015 equal to at least four hundred percent of the statewide average number of AHCCCS-covered inpatient days at all hospitals, and had a Medicaid utilization rate greater than 30% as reported in the hospital's Medicare Cost Report for the hospital's cost reporting period ending between January 1, 2016 and December 31, 2016, and received less than \$2 million in add-on payment for outliers for the fiscal year beginning October 1, 2015. These calculations include both Fee-For-Service and Managed Care Organization data. Secondly, and in addition to the provider policy adjustor if it applies, Effective October 1, 2022<sup>+</sup> AHCCCS will apply one of nine service policy adjustors where the claim meets certain conditions. The nine service policy adjustors, the conditions to which they apply, and the adjustment values are described below:

1. Normal newborn DRG codes: 1.~~70~~<sup>55</sup>
2. Neonates DRG codes: 1.10
3. Obstetrics DRG codes: 1.55
4. Psychiatric DRG codes: 1.65
5. Rehabilitation DRG codes: 1.65
6. Burns DRG codes: 4.00
7. Claims for patients under age 19 assigned DRG codes other than those described in items 1 through 6 above and with severity of illness level 1 or 2: 1.25
8. Claims for patients under age 19 assigned DRG codes other than those described in items 1 through 6 above and with severity of illness level 3 or 4: 2.40
9. All Other Adjustor: 1.025

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G. DRG Initial Base Payment

A claim for an inpatient hospital stay will be assigned both a DRG code derived from all diagnosis and surgical procedure codes included on the claim and a DRG code derived by excluding diagnosis and surgical procedure codes associated with health care acquired conditions or other provider-preventable conditions listed in Att. 4.19-A, page 13. The DRG code with the lower relative weight will be used to process the claim. For each hospital stay, the DRG initial base payment equals the DRG base rate multiplied by the DRG relative weight and any applicable policy adjustors. The DRG initial base payment may be subject to additional adjustments as described in the following paragraphs to produce a DRG final base payment.

H. Outlier Add-on Payments

Cases which are extraordinarily costly in relation to other cases within the same DRG due to the severity of illness or complicating conditions may qualify for an outlier add-on payment. A claim will qualify for an outlier add-on payment if the claim cost exceeds the outlier cost threshold. The claim cost is determined by multiplying the covered charges by the hospital's outlier cost-to-charge ratio. The outlier threshold is equal to the DRG base payment plus the fixed loss amount, where the DRG base payment for this purpose is the lesser of the DRG initial base payment determined under paragraph G and the DRG transfer payment determined under paragraph I. The fixed loss amounts for critical access hospitals and for all other hospitals are posted on the AHCCCS website as of October 1, 2022~~1~~ at <https://www.azahcccs.gov/PlansProviders/RatesAndBilling/FFS/APRDRGrates.html>.

The outlier cost-to-charge ratios for all hospitals will be determined as follows:

1. For children's hospitals in Arizona, the outlier cost-to-charge ratio will be calculated by dividing the hospital's total costs by its total charges using the most recent Medicare Cost Report available as of September 1st each year.
2. For Critical Access Hospitals in Arizona, the outlier cost-to-charge ratio will be the sum of the statewide rural default operating cost-to-charge ratio and the statewide capital cost-to-charge ratio contained in the Medicare inpatient prospective payment system data file available as of September 1st each year.